

2013 HOUSE FINANCE AND TAXATION

HB 1409

2013 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1409
February 5, 2013
Job 18294

Conference Committee

Kevin Helzer

Explanation or reason for introduction of bill/resolution:

A Bill relating to income taxes of individuals, estates, and trusts.

Minutes:

Attached testimony #1,2

Chairman Belter: Opened hearing on HB 1409.

Representative Owens: Introduced bill. See attached testimony #1. Also reviewed the bill. (ended 9:30).

Representative Zaiser: It seems a little unfair to me that the person who has worked most of his life would but still doesn't make more than like \$10 an, but take a person that has inherited money or it just came easier for that would be in equal comparison?

Representative Owens: It was specifically designed to keep both types of those people in mind. The fact that one chases a dollar and is a go getter verses someone that maybe just happy in their current life doesn't take away from the fact everyone should be getting or paying the same. Tax breaks for having children, if you choose not to have children and don't get that tax break seems unfair.

Chairman Belter: Further testimony in support of 1409? Any opposition to 1409?

Dana Bohn, Greater North Dakota Chamber: See attached testimony from Andy Peterson, President and Chief Executive Officer for the Greater North Dakota Chamber #2.

Vice Chairman Headland: Is there anyone from the tax department that can answer a question? Have we determined how many people in ND would become exempt if this were to pass?

Joe Becker, Tax Department: We can certainly find that out for you.

Representative Kelsh: What was the per child exemption under this bill?

Joe Becker: The exemption amount per dependent is \$10,000.

Chairman Belter: Closes.

2013 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1409

February 11, 2013

Job #18696

Conference Committee

Committee Clerk Signature

Mary Brucker

Explanation or reason for introduction of bill/resolution:

A Bill relating to income taxes of individuals, estates, and trusts.

Minutes:

Vice Chairman Headland: I believe this committee has already passed a fairly aggressive and extensive tax bill and I don't know that we can afford to pass more than one.

Chairman Belter: This is a flat tax?

Vice Chairman Headland: This is a flat tax.

Vice Chairman Headland: Made a motion for a Do Not Pass.

Representative Zaiser: Seconded.

Vice Chairman Headland: I would like to thank Representative Owens for thinking a little differently but a 3% flat tax when we further add exemptions complicate our tax code even further and 3% is higher than the rate in HB 1250.

ROLL CALL VOTE: 12 YES 1 NO 1 ABSENT

Representative Kelsh will carry this bill.

FISCAL NOTE
Requested by Legislative Council
01/22/2013

Bill/Resolution No.: HB 1409

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$(487,900,000)			
Expenditures						
Appropriations						

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties			
Cities			
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1409 broadens and flattens the individual income structure and reduces individual income tax liabilities.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

The provisions of HB 1409 include starting with a broader measure of income - federal adjusted gross income - in place of federal taxable income. Sections 1 and 2 of HB 1409 provide certain adjustments to this income, and impose a single, flat tax rate of 3%.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

If enacted, HB 1409 is expected to reduce state general fund revenues by an estimated \$487.9 million in the 2013-15 biennium.

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Date: 2-11-13
 Roll Call Vote #: 1

**2013 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 1409**

House Finance and Taxation Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerefer to Appropriations Reconsider

Motion Made By Rep. Headland Seconded By Rep. Zaiser

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley Belter	✓		Rep. Scot Kelsh	✓	
Vice Chairman Craig Headland	✓		Rep. Steve Zaiser	✓	
Rep. Matthew Klein	✓		Rep. Jessica Haak		
Rep. David Drovdal	✓		Rep. Marie Strinden	✓	
Rep. Glen Froseth	✓				
Rep. Mark Owens		✓			
Rep. Patrick Hatlestad	✓				
Rep. Wayne Trottier	✓				
Rep. Jason Dockter	✓				
Rep. Jim Schmidt	✓				

Total (Yes) 12 No 1

Absent 1

Floor Assignment Rep. Kelsh

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1409: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (12 YEAS, 1 NAYS, 1 ABSENT AND NOT VOTING). HB 1409 was placed on the Eleventh order on the calendar.

2013 TESTIMONY

HB 1409

HOUSE FINANCE AND TAX COMMITTEE

#1

Feb 5, 2013

9:30 AM

HB 1409

Testimony

Good Morning, Mr. Chairman and Financial and Tax Committee. For the record, I am Representative Mark Owens, District 17 Grand Forks, ND.

I come before you today to recommend and explain a new approach to Individual Income Tax for the State of North Dakota in HB 1409.

Since 2007 this body has continued to adjust and return a portion of Income Tax revenue to the Taxpayer.

In 2007 a number of exemptions and credits were designed to target some of these funds to job growth, industry growth, and work force growth. Total collections were \$ 593,055,235.00, after all the new deductions and credits, total revenues rose to \$ 687,024,815.00.

In 2009, this body sought to again to return some of the revenues to rightful owners the people by lowering the rates scale to a low of 2.1% and a high of 4.86% and the revenue over the next Biennium again climbed an additional \$ 47,076,480.00 to \$ 734,101,295.00.

In 2011, again the rate scale was lower to a low of 1.84% and a high 3.99%. The result was yet another increase in the income tax revenue by \$ 149,035,718.00.

Now in 2013 the projected 2013-15 Biennium income tax revenue is \$1,031,128,000

Section 1

Changes the definition of "Taxable Income" for individuals, estates, and trust to equal "adjusted gross income" as computed on the federal return, instead of taxable income.

Section 2.

Changes section 57-38-30.3 by deleting all current tax brackets for individual, estate, and trust income tax.

Page 11 Line 17

Subsection 1. Establishes individual, estate, and trust income tax as imposed on adjusted gross income as computed on the federal return and set the ND tax rate at 3.0% and maintains the current formula for part-time residents.

Subsection 2. Defines taxable income a adjusted gross income as computed on the Federal return.

#1
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2.a. Reduces the taxable income by capital gains, dividends, and interest income if included within the Federal adjusted gross income.

2.b. Reduces the taxable income by the portion of a distribution of capital gains, dividends, and interest income received for a qualified investment fund that was a part of the federal adjusted gross income.

2.c. Reduces an equal amount of earnings passed through as an allocation/apportionment of 57-35-3 or Financial Institution Tax

2.d. Increase by the amount of a lump sum distribution from income averaging election under section 402 of IRS code.

2.e. Increased by an amount equal to the losses that are passed through as allocation/apportionment of 57-35-3 or Financial Institution Tax.

2.f. Reduces by the amount of income from a reservation for taxpayers residing on the reservation.

2.g. Reduces by a Living Exemption

Single or Married Filing Separately	\$20,000
Married on Joint Return	\$40,000
Head of Household	\$30,000

2.h. Reduces by Individual exemptions

Each taxpayer/Dependent	\$10,000
Blind person (SS 22/Section 57-02-08)	\$10,000
Unmarried Widow or Widower, 65 or older	\$10,000

3 and 4 no changes.

5. Changes taxable to adjusted gross and returns to return.

6 and 7 no changes.

Section 3. Effective Date. December 31, 2012

Category	Living Exemption	Individual Exemption	Taxable Income Begins
Single/MFS	\$20,000	\$10,000	\$30,000
Married	\$40,000	\$20,000	\$60,000
HofH	\$30,000	\$20,000	\$50,000

Blind	10,000
Widow or Widower unmarried 65+	10,000

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For the year Jan. 1–Dec. 31, 2012, or other tax year beginning , 2012, ending , 20

Your first name and initial Last name Your social security number

If it is joint return, spouse's first name and initial Last name Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. Make sure the ESN(s) above and on line 8c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. Yes Spouse

Foreign country name Foreign province/state/country Foreign postal code

Filing Status 1 Single 2 Married filing jointly (even if only one had income) 3 Married filing separately. Enter spouse's SSN above and full name here. 4 Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. 5 Qualifying widow(er) with dependent child

Exemptions 6a Yourself. If someone can claim you as a dependent, do not check box 6a. 6b Spouse. Boxes checked on 6a and 6b: No. of children on 6c who: lived with you; did not live with you due to divorce or separation (see instructions). Dependents on 6c not entered above. Add numbers on lines above.

d Total number of exemptions claimed

Income 7 Wages, salaries, tips, etc. Attach Form(s) W-2 7 8a Taxable interest. Attach Schedule B if required 8a 8b Tax-exempt interest. Do not include on line 8a 8b 9a Ordinary dividends. Attach Schedule B if required 9a 9b Qualified dividends 9b 10 Taxable refunds, credits, or offsets of state and local income taxes 10 11 Alimony received 11 12 Business income or (loss). Attach Schedule C or C-EZ 12 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here. 13 14 Other gains or (losses). Attach Form 4797 14 15a IRA distributions 15a 15b Taxable amount 15b 16a Pensions and annuities 16a 16b Taxable amount 16b 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 17 18 Farm income or (loss). Attach Schedule F 18 19 Unemployment compensation 19 20a Social security benefits 20a 20b Taxable amount 20b 21 Other income. List type and amount 21 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income. 22

Adjusted Gross Income 23 Educator expenses 23 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 24 25 Health savings account deduction. Attach Form 8889 25 26 Moving expenses. Attach Form 3903 26 27 Deductible part of self-employment tax. Attach Schedule SE 27 28 Self-employed SEP, SIMPLE, and qualified plans 28 29 Self-employed health insurance deduction 29 30 Penalty on early withdrawal of savings 30 31a Alimony paid b Recipient's SSN 31a 31b 32 IRA deduction 32 33 Student loan interest deduction 33 34 Tuition and fees. Attach Form 8917 34 35 Domestic production activities deduction. Attach Form 8903 35 36 Add lines 23 through 35 36 37 Subtract line 36 from line 22. This is your adjusted gross income 37



HB 1409
Finance & Tax
Honorable Wesley Belter - Chair

The Greater North Dakota Chamber, Champions for Business in North Dakota, is committed to building the best business climate in the nation. We work in collaboration with more than 1,100 businesses and a coalition of local chambers in our state. The Greater North Dakota Chamber also represents the National Association of Manufacturers and works closely with the U.S. Chamber of Commerce.

Why we oppose HB 1409:

The Greater North Dakota Chamber appreciates the efforts of Representative Owens, Hedland, Streyle, and Thoreson. Any effort that attempts to lower taxes throughout the state is a step in the right direction. We firmly believe lower taxes are at the heart of a competitive business environment. That said, we believe a better vehicle to accomplish this goal is HB 1409. As a result we oppose this bill.

Specifically, the provisions of HB 1409 include starting with a broader measure of income - federal adjusted gross income - in place of federal taxable income. Sections 1 and 2 of HB 1409 provide certain adjustments to this income, and impose a single, flat tax rate of 3%.

While we appreciate the proposed reduction, it does not address the corporate side of the tax equation, and thus, we feel HB 1250 is a better vehicle because it addresses both personal and corporate income. Should 1409 have included both personal and corporate relief we may have been in support.

Our preferred bill is HB 1250 that offers a 35% reduction for all tax payers, including personal and corporate tax payers.

Thank you for your consideration
Andy Peterson
President & CEO
Greater North Dakota Chamber

Champions **for** Business

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